



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JUNE 8, 2016

Update: Chemical Dependency Services Added to B&O Tax Deduction for Providing Mental Health Services under a Government Funded Program

Effective April 1, 2016, RCW 82.04.4277 was expanded to include chemical dependency services and the expiration date for the deduction was extended to January 1, 2020.

([Engrossed Third Substitute House Bill 1713, Chapter 29, Laws of 2016](#)).

From August 1, 2011 to March 31, 2015 the deduction was limited to mental health services.

Business and occupation (B&O) tax deductions are provided as follows:

- Health and social welfare organizations may deduct amounts received as compensation for providing mental health services or chemical dependency services under a government-funded program; and
- A Regional Support Network (RSN) may deduct amounts received from the state of Washington for distribution to a health or social welfare organization that is eligible for the above deduction. RSNs who are not themselves health or social welfare organizations may not deduct amounts received from the state of Washington that they do not distribute to health or social welfare organizations eligible for the above deduction.

Background

The Department of Social and Health Services (DSHS) contracts with RSNs to oversee the delivery of mental health services and chemical dependency services. The RSNs contract with local providers to provide an array of mental health services and chemical dependency services, monitor the activities of local providers and oversee the distribution of funds. Prior to the deduction in [RCW 82.04.4277](#), nonprofit health and welfare organizations were only allowed a deduction for B&O tax when the payment came directly from a governmental agency (see [RCW 82.04.4297](#)).

How do I report?

Persons claiming the deduction provided by [RCW 82.04.4277](#) must electronically file an annual tax incentive report with the Department by May 31 (new filing date for reports due for 2016 forward) of the year following the year in which the person became eligible to claim the deduction. In addition, the person is required to file electronically all returns, reports, etc., with the Department ([RCW 82.32.534](#), [RCW 82.32.600](#)).

Health and welfare organizations that provide mental health services and are paid directly by a RSN, as well as non-governmental Regional Support Networks, should continue to report their gross income under the Service and Other Activities B&O tax classification. They can then take a deduction for "Govt funded mental health services."

There is no change in reporting for nonprofit health and welfare organizations that receive payment directly from a governmental agency. These organizations continue to report under the Service and Other Activities B&O tax classification, then take a deduction under "Other" and write in "Exempt income under [RCW 82.04.4297](#)." Businesses claiming this deduction are not required to file an annual tax incentive report.

Expiration date

This B&O tax deduction expires January 1, 2020.

Definitions

Health or social welfare organization: [RCW 82.04.431](#)

Mental health services and Regional Support Network: [RCW 71.24.025](#)

Chemical dependency: [RCW 70.96A.020](#)

For more information

Contact the Telephone Information Center at 1-800-647-7706.